

**Internal Audit Report**  
**Year ending: 31<sup>st</sup> March 2020**

<b>Name of Council:</b>	Melton Parish Council
<b>Income:</b>	£371,276 including precept
<b>Expenditure:</b>	£155,009
<b>Precept Figure:</b>	£77,998
<b>General Reserve:</b>	£54,489
<b>Earmarked Reserves:</b>	£318,966

## **Internal Audit Objectives and Responsibilities**

The primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council, and to achieve this will adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- The effectiveness of operations
- The economic and efficient use of resources
- Compliance with applicable policies, procedures, laws and regulations
- The safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- The integrity and reliability of information, accounts and data

Accordingly, in the conduct of planned audits Internal Audit may:

- Carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2019/20 of the Annual Governance and Accountability Return (AGAR)
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- Review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Subject	Requirements	Comments/Recommendations
<b>1. Proper Book-keeping</b>	Type of cash book or ledger used	The Council uses the Rialtas Alpha accounting package which produces reports on an Income and Expenditure basis. Council follows proper practices in ensuring that its accounting procedure gives a more accurate presentation of an authority's true financial position by focusing on the balance of economic benefits that it has under its control, rather than just its bank balance.
	Cash book kept up to date and regularly verified against bank statement	A monthly bank reconciliation is completed and reported to the FERM Committee.
	Correct arithmetic and balancing	Yes
<b>2. Financial Regulations &amp; Standing Orders</b>	Evidence that standing orders have been adopted and reviewed regularly	SOs were reviewed and adopted 28/11/18. They were reviewed again on 13/3/19, and by the Interim Management Committee set up to caretake council affairs during the Covid-19 pandemic lockdown on 27/5/2020 (min ref 20.26.04).
	Evidence that Financial Regulations have been adopted and reviewed regularly	FRs were reviewed and adopted 13/03/19. They were reviewed again and a revised set adopted 15/01/2020 (min ref 20.07.05) The Interim Management Committee approved further amendments 8/04/2020 (min ref 20.05.04)
	Evidence that a Responsible Financial Officer has been appointed with specific duties	The Clerk confirmed that the role of RFO remained within the job description of the "Clerk & Executive Officer", which was reviewed and adopted by the FERM Committee on 9/10/2019
	Evidence that Financial Regulations have been tailored to the Council	Yes – see above regarding amendments.
<b>3. Payment controls</b>	Supporting paperwork for payments, and appropriate authorisation	A selection of payments were checked against invoices, cashbook and bank statements and found to be correctly recorded and authorised.
	Internet Banking transactions properly recorded/approved	Yes – The Clerk sets up payments and a Councillor provides second authorisation.

	VAT correctly identified and reclaimed within time limits	VAT is identified in the cashbook £2537.46 was received 12/04/19 £1827.47 was received 07/08/19 £4148.28 was received 24/12/19 £539.27 was received 17/02/20
	Has Council adopted the General Power of Competence and is it being correctly applied?	No
	S137 separately recorded, minuted and within statutory limits	Yes – a very clear report is provided
	Payments of interest and principal sums in respect of loans, are paid in accordance with agreements	PWLB No: 50107724 for £400,000, to purchase unit 17 Riduna Park as a meeting room/office. Repayment of interest on the above loan in the sums £8,665.08 was paid on 24th June 2019 with a further repayment of £9,819.62 on 1st November 2019, both via Direct Debit.
<b>4. Risk Management</b>	Is there evidence of risk assessment documentation?	The Council reviewed a risk management assessment document on 13/3/19, 13/11/2019 & 18/03/2020
	Evidence that risks are being identified and managed. (assertion 8, Annual Governance Statement)	An Annual review of risk management arrangement was made at the Full Council meeting held 19/6/2019. (min ref 19.57.07)  At the meeting of the Interim Management Committee held 8/04/2020 the council reviewed the budget in the light of the Covid-19 pandemic and agreed to make an entry in the risk register (min ref 20.05.02)
	Appropriate Insurance cover in place for employment, public liability and fidelity guarantee.	AXA policy: Public Liability £10,000,000; Products Liability £10,000,000; Hirers Liability £5,000,000 Employee Dishonesty £250,000. Employers £10,000,000. <b>Recommendation: Employee dishonesty insurance is below recommended level (Cash in bank + 50% of precept) of around £425,000. This should be reviewed by the Council.</b> Note also see cross-checking with the asset register, below.

	Evidence that insurance is adequate and has been reviewed on an annual basis	The Full Council meeting held 8/05/19 resolved to delegate arrangement of insurance cover to the FERM Committee (min ref 19.42.05) Subsequently, a the full council meeting held 19/6/2019, the summary position was considered by all members (min ref 19.57.07). On 11/09/2019 the full council considered the insurances and agreed to accept the renewal (min ref19.74.03). On 13/11/2019 the full council ratified the review of insurances (19.97.04)
	Evidence that internal controls are documented and regularly reviewed	The Internal Control Policy was reviewed 13/3/19 and it was resolved no issues were found to date for 2018/19. The policy was reviewed for the year ending 31/03/2020 at the meeting of the IMC held 29/04/2020.
	Evidence that a review of the effectiveness of internal audit has been carried out during the year	Within the Review of Internal control, is the specification for Internal Audit and an undertaking to review the scope annually. It was noted that the Council reviewed its choice of internal auditor in the course of the year under review.
<b>5. Budgetary controls</b>	Verifying that the budget has been properly prepared, and agreed	Yes, very clear minutes setting out all the required information was found. The Council considered a report from the Budget Working group at the meeting held 28/11/18 (min ref 18.121.03) . Full Council, at a meeting of 9th January 2019, approved the recommendation from the FERM Committee that a budget in the sum of £106,634 be set (min ref 19.07.02). Work on the 2020/21 budget by the Budget Working Group was considered at the meeting held 13/11/2019 (19.97.02). The was approved on 15/01/2020 (min ref 20.07.02).
	Verifying that the Precept amount has been agreed in full Council and clearly minuted	At the meeting held 9/01/19 it was agreed to set a precept for 2019/20 of £77,998.27 being an increase of £0.96 on a Band D property (min ref 19.07.03)  At the meeting held 15/01/2020, it was agreed to set a precept for 2020/21 of £86,948.17.
	Regular reporting of expenditure and variances from budget	Very fulsome reports are submitted to each meeting of the Council and are clearly minuted.
	Reserves held	General Reserves £54,489
	General and Earmarked.	8 Earmarked reserves, of which 6 hold funds totalling £318,966

<b>6. Income controls</b>	Is income properly recorded and promptly banked?	Yes The deposit book has annotated details setting out the provenance of the deposit
	Is income reported to full Council?	Yes - very full reports are submitted to the council and minuted accordingly
	Does the Precept recorded agree to the Council Tax Authority's notification?	The Council received precept of £38,999.14 in April 2019 and a further £38,999.13 on 27/092019 as per the remittance advices received from East Suffolk District Council. This was reported within the FERM Committee reports submitted to full Council in May and October 2019.
	If appropriate, are CIL Reporting Schedules in accordance with the Community Infrastructure Levy Regulations 2010?	Yes
	<ul style="list-style-type: none"> <li>Is CIL income reported to Council?</li> </ul>	Yes
	<ul style="list-style-type: none"> <li>Does unspent CIL income form part of Earmarked reserves?</li> </ul>	Yes: £128,317
	<ul style="list-style-type: none"> <li>Has an annual report been produced</li> </ul>	Yes, the draft report was approved on 19/6/2019 (min ref 19.57.06)
	<ul style="list-style-type: none"> <li>Has it been published on the authority's website</li> </ul>	Yes <a href="https://melton-suffolk-pc.gov.uk/wp-content/uploads/2020/04/IMC2015-CIL-funds-available.pdf">https://melton-suffolk-pc.gov.uk/wp-content/uploads/2020/04/IMC2015-CIL-funds-available.pdf</a>
<b>7. Petty Cash</b>	Is a petty cash in operation?	No
	If so, is there an adequate control system in place.	N/A
<b>8. Payroll controls</b>	Do all employees have contracts of employment?	3 persons are employees of the parish Council
	Are arrangements in place for authorising of the payroll and payments by the Council?	Authorisation of payments is made in the same way as other invoices, 2x councillor's initials

	Verifying the process for agreeing rates of pay to be applied.	FERM Committee in closed session reviews annual pay and any mid-year amendments.
	Do salary payments include deductions for PAYE/NIC?	Yes
	Is PAYE/NIC paid promptly to HMRC?	Yes
	Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?	Yes – FERM Committee considered duties required by the pension regulator, at the meeting held 10/07/2019 (min ref 19.36.03)
	Are other payments to employees reasonable and approved by the Council?	A selection of expenses claims were examined and found to be in order.
<b>9. Asset control</b>	Verifying the Council maintains an Asset Register in accordance with proper practises	An asset register is maintained. <b>Recommendation: The Council may wish to review the asset register and set a policy on what is to be regarded as an asset. The current list contains a staple extractor valued at 89p and a £1.99 pair of scissors, both acquired in 2007.</b> Guidance suggests items over £100, or £500 makes for a more realistic and manageable list of fixed assets.
	Verifying that the Asset Register is reviewed annually	Yes - the Asset register was presented to the meeting held 18/03/2020.
	Cross checking of Insurance cover	Asset register valuation as at 31/3/2020 = £783,187.18 Insurance cover = £703,264.38, therefore the Council appears underinsured. <b>The above recommendation regarding a policy on assets would cover drawing up a new register recording both the asset value <i>and</i> the current insurance value, enabling ease of cross-checking of insurances to satisfy the Council that they are not under-insured.</b>
<b>10. Bank reconciliation</b>	Regularly completed and reconciled with cash book	Monthly and reported to full council

	Confirm bank balances agree with bank statements	Yes, cashbook and actual statements agree. 30/03/2020 Barclays Bank Current A/C 9758 £205,917.59 30/03/2020 Barclays Bank Premium A/C 4733 £53,920.98 30/11/2019 Ipswich Building Society Deposit A/C 7237 £100,686.91 30/03/2020 Lloyds Bank Treasurer's A/C 0168 £14,376.98
	Regular reporting of bank balances at council meetings	The bank balances are reported at each meeting of the FERM Committee and through that to Full Council
<b>11. Year-end procedures</b>	Appropriate accounting procedures used	Yes – Income and Expenditure.
	Financial trail from records to presented accounts	Yes, a very clear trail was found.
	Has the appropriate end of year AGAR documents been completed?	Yes - The Council is aware that Part 3 needs to be completed, along with the interim audit questions for councils with income or expenditure in excess of £200,000.
	Where an authority certified itself exempt in 2018/19, did it meet the exemption criteria and correctly declare itself exempt?	Not applicable
	Was there the opportunity provided for the exercise of electors' rights?	The Interim Audit noted that during the Summer of 2019, the smaller authority correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.
	Have the publication requirements been met in accordance with the Audit & Accounts Regulations of 2015	The Documents required under the Account and Audit Regulations 2015 were all found to be present on the website. <a href="https://melton-suffolk-pc.gov.uk/wp-content/uploads/2019/08/Publication-of-period-for-the-exercise-of-public-rights-and-una.pdf">https://melton-suffolk-pc.gov.uk/wp-content/uploads/2019/08/Publication-of-period-for-the-exercise-of-public-rights-and-una.pdf</a>
<b>12. Internal audit for the year ending 31 March 2019</b>	Verifying that the previous internal audit reports have been considered by the Council	The 2018/19 year end internal audit report was noted at the Full Council 19/06/2019 (Min ref 19.57.05). The interim internal audit report carried out on 16/01/2020 was considered at a FERM Committee meeting on 05/02/2020. The Full Council meeting scheduled for March 2020 at which the report would have been considered was cancelled due to covid-19 concerns.



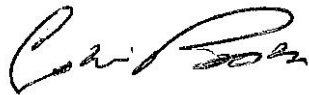
	<p>Verifying that appropriate action has been taken regarding recommendations raised in reports from Internal Audit</p>	<p>The FERM Committee held 5/02/2020 resolved not to adopt the suggestion by the internal auditor to note the legal power used to make decisions. Section 1.22 of Governance and Accountability (the aforesaid Proper Practices) states</p> <p><b>Acting within its powers.</b> All authorities' actions are controlled by statute. Therefore, appropriate decision-making processes need to be in place to ensure that all activities undertaken fall within an authority's powers to act. In particular authorities need to have robust procedures in place to prevent any decisions or payments being made that are <i>ultra vires</i>, i.e. that the authority does not have the lawful power to make. The exercise of legal powers needs always to be carried out reasonably. For that reason, authorities making decisions need always to understand the power(s) they are exercising in the context of their decision making.</p> <p>Councillors will have the above clause in mind when they approve box 3 of the Annual Governance Statement:  <i>[The Council] has only done what it has the legal power to do and has complied with Proper Practices in doing so.</i></p> <p>It is indeed entirely up to the Council as to whether it <i>records</i> the power it uses in each item of expenditure, but as it is a legal requirement to <i>know</i> the legal power being exercised at the point each decision is made, it is unsurprising that Internal Auditors recommend noting it, as it is not unusual for hostile parties to demand the answer some time in the future.</p>
	<p>Confirmation of appointment of Internal Auditor</p>	<p>On 19/06/2019 the full council agreed to delegate the decision on the appointment of an internal auditor to the FERM Committee (min ref 19.58.01) SALC was appointed to act as the Parish Council's Internal Auditor for an Interim Audit at a meeting of the FERM Committee of 9th October 2019 (min ref 19.51.11).</p> <p><b>Observation: It is a Council and not a committee decision to appoint the internal auditor. The footwork may be delegated but this should be a recommendation for full council to adopt.</b></p>
<p><b>13.External audit for the year ending 31 March 2019</b></p>	<p>Verifying that the external audit report has been considered by the Council</p>	<p>The external audit report was noted as clear and without qualification at the meeting held 13/11/2019 (min ref 19.97.03)</p>

	Verifying that appropriate action has been taken regarding recommendations raised in reports from External Audit	No recommendations were made by the external auditor
<b>14. Additional Comments</b>	Annual meeting - held in accordance with legislation	The Annual Meeting of the Council was held on 8th May 2019 with the first item on the agenda being the election of the Chairman (min ref 19.34)
	Correct identification of trustee responsibilities	Not Applicable
	<p>Verification that the applicable Transparency Code has been correctly applied and information is published in accordance with current legislation</p> <p>Procedural matters: Confidentiality</p> <p>Procedural matters: Delegation of powers</p>	<p>Yes, very full disclosure was found on the website, all documents were found.</p> <p>Confidential minutes were seen for item 19.108 during the meeting held 13/11/2019.</p> <p><b>Observation: Business can only be transacted in closed session where it is in the public interest, and the reason for it must be justifiable. "on the grounds of its confidential nature" is inadequate; it is the reason for confidentiality that should be recorded.</b></p> <p>In the case of the closed session 13/11/19, there is nothing confidential in the minutes, so separate confidential minutes are not necessary, where the need for confidentiality is in the discussion and not the outcome. Reasons for closed sessions may include (amongst others) personnel matters, contracts, or, probably appropriate in this case, "...that publicity would be detrimental to unfettered debate as it would undermine this process and result in less robust, well-considered or effective policies".</p> <p>The Council set up an "Interim Management Committee" to caretake council matters during the Covid-19 lockdown period, which was still in place at the time of audit. It was not possible to hold a full council meeting to lawfully appoint the committee and delegate powers to the Clerk and committee. Nevertheless, the Clerk advises that there is full support within the council for actions taken.</p> <p>The IMC considered the ability for the full council to meeting at its own meeting held 29/4/2020 (min ref 20.17)</p>

Verifying that the council is registered with the ICO	Z705272X
Verifying that the Council is compliant with the General Data Protection Regulation requirements  Are the following in place: <ul style="list-style-type: none"> <li>• Audit / Impact Assessment</li> <li>• Privacy Notices</li> <li>• Procedures for dealing with Subject Access Requests</li> <li>• Procedure for dealing with Data Breaches</li> <li>• Data Retention &amp; Disposal Policies</li> </ul>	Council discussed data protection awareness at the meeting held 15/01/2020 (min ref 20.05)  These matters were discussed by the FERM Committee 9/10/2019 (min ref 19.51.07)

Thank you to the Clerk and Assistant Clerk for their assistance in completing the audit under social distancing conditions. The Council is clearly well-run with good systems and very good record-keeping, particularly the meeting minutes.

Signed



Date of Internal Audit Visit 10<sup>th</sup> June 2020      Date of Internal Audit Report 10<sup>th</sup> June 2020

On behalf of Suffolk Association of Local Councils